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NOTES

PROFESSOR ACHILLE LORIA ON PROFESSOR IRVING FISHER'S "RATE OF INTEREST"

Professor Fisher's method of determining the value of capital by capitalizing its income at the current rate of interest seems to me open to very grave inconsistencies. One consequence of his proposition which I am surprised he has not noticed is that capital employed in different enterprises may easily yield the most divergent profits which the competition of capitalists would be powerless to prevent. Yet, according to Professor Fisher's proposition, the larger profits that capital obtains in one enterprise would result at once in an adjustment in the value of the capital which would equalize the rate of interest in this favored industry to that prevailing among the others. Consequently the capitalists in other enterprises would no longer have any reason to transfer their capital to the industry that produces a profit, for the capital that is employed in it will give but the current rate of interest. Professor Fisher's theory therefore destroys all machinery for equalization of profits earned by capital in different enterprises.

This is one contradiction that seems to me inevitably to spring from Professor Fisher's argument and which disappears as soon as we follow the method I advocate—the valuation on the other hand, of capital by means of the cost of production of the product of which it is composed. Moreover it seems to me that all the phenomena Professor Fisher makes use of for his method of valuation of capital may be employed quite as well in the method I prefer. For example he remarks, very correctly, that a high rate of interest is an obstacle to the adoption of long methods of production or those which demand a large accumulation. But this fact I make use of quite as well on the theory that the value of capital is determined independently of the interest. According to the proposition which I developed at length (and I venture to hope, demonstrated) in my *Analysis of Capitalistic Ownership,* the value of an article is equal to the quantity of work directly spent in its production and in the production of the materials (machines, raw materials, etc.) consumed during production added to the quantity of work spent in

the production of the capital goods employed, multiplied by the rate of interest. But the higher the interest rate and the higher the value of the materials which require accumulation—and their value may surpass the consumers' power of purchase—the less profitable is it to choose remote methods of production because they would raise the price of the materials too high.

Professor Fisher's remarks concerning the influence of the variation in the value of money on the rate of interest do not completely convince me. He supposes a capitalist lends, at 5 per cent., 1,000 gold units, equivalent now to 1,000 hectoliters of grain, agreeing to return it at the end of a year either in gold or grain, and that at the end of the year the value of 1 gold unit is raised to 1.01 hectoliters of grain. If he supposes the debtor to pay his debt in gold, he will pay at the end of a year 1,050; that is to say, he will actually pay an interest of 5 per cent., but if he pays his debt in grain he must pay 1,060.50 hectoliters of grain because that quantity is exactly equivalent to 1,050 gold units. He pays, Professor Fisher says, an interest of 60.50 hectoliters of grain; that is to say, he pays on the capital received an interest of $\frac{60.50}{1,000}$ or 6.05 per cent.

Now, according to my view, this is not true, for out of the 1,060.50 hectoliters of grain paid by the debtor, 1,010, and not only 1,000, represent the reimbursement of the capital; that which is equivalent actually to 1,000 is exactly 1,010 hectoliters of grain; consequently 50.50 hectoliters represents only the interest.

Therefore the rate of interest measured in grain is $\frac{50.50}{1,010}$—5 per cent., or is exactly equal to the rate of interest measured in money. Restated: The variations in the value of money offset exactly the value of the interest measured in grain, but as it affects in the same proportion the value of capital measured in grain, it leaves unaltered the rate of interest measured in grain.

ACHILLE LORIA

REPLY BY PROFESSOR IRVING FISHER TO PROFESSOR LORIA'S CRITICISM OF "THE RATE OF INTEREST"

In Professor Loria's brief criticism, he says he is surprised that I overlooked the fact that capital employed in different enterprises may easily yield different rates of profit. From this statement it